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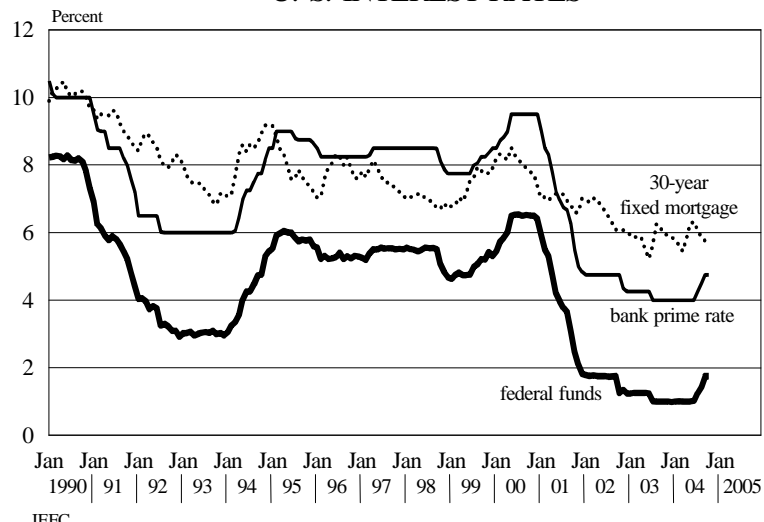
## ECONOMY: Interest Rates Rise At Measured Pace

Edward H. Boss, Jr., Chief Economist

The Federal Reserve Open Market Committee voted in late September to raise its target rate on federal funds by 25 basis points to 1-3/4% and approved a similar 25 basis points rise in the discount rate to the 2-3/4% level. This was the third increase in these key short-term interest rates this year, following ¼% increases in June and August. Despite the increase in short-term interest rates, long-term interest rates, as reflected in the 30-year fixed mortgage rate, were not affected and, in fact, actually edged lower as shown in Chart 1.

## CHART 1

## U. S. INTEREST RATES



The Committee felt that, even after this action, the stance of monetary policy remained accommodative and that, coupled with underlying growth in productivity, was providing ongoing support to economic activity. The Committee revealed at the same time that it perceived the risks to attaining sustainable growth and price stability to be relatively equal over the next few quarters. By stating that it still feels monetary policy is accommodative, however, suggests it is likely to increase these key interest rates further. Indeed, it stated,... **“with underlying inflation expected to be relatively low, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured.”** There are no meetings scheduled in October, with the final two meetings of the year to be held on November 10<sup>th</sup>, after the elections, and on December 14<sup>th</sup>.

On the economy, the Committee pointed out that output growth had regained some traction after moderating earlier in the year in response to a substantial change in energy prices and that labor market conditions had improved modestly, adding 1.7 million jobs since the low point reached in August 2003. Thus, it appeared that the economy had emerged from a **“soft patch”**, as Federal Reserve Chairman Greenspan had put it. Clearly the bond markets had a less optimistic outlook for the economy than the Federal Reserve as reflected in lower long-term interest rates even as short-term rates were raised.

Since the meeting, energy prices have spiked again with oil prices hitting a record \$50 a barrel level. In addition to international conflicts disrupting oil supplies, rising oil prices reflect the reduction in domestic oil production as offshore oilrigs in the Gulf were temporarily shut down, due to hurricane conditions in the Gulf of Mexico, and restart up has been slow. It is also unclear as to how the 4 consecutive major hurricanes that hit Florida will impact the economic and employment data in the months ahead. Current indications, however, are these developments may be transitory as Florida rebuilds, Saudi Arabia has announced increased oil output, and there may be some draw down of the U.S. Strategic Energy Reserve due to disruptions in the Gulf of Mexico. Ultimately it will be the outcome of these developments and their impact on economic activity and prices that will help determine the timing of future Federal Reserve interest rate moves.

While key short-term interest rates have risen three times starting in June, it should be pointed out that they started from “emergency” levels, with the federal funds rate at 1% in mid-2003, at a 45-year low, and had come off a 6.5% level at the beginning of 2001, (see Chart). Indeed, even at its current level of 1.75%, the rate is still below the inflation rate, establishing a negative **real** interest rate. Thus, it is likely that further measured steps in raising these key interest rates by the Federal Reserve may be achieved to preempt future inflationary pressures without deleteriously affecting economic growth.

## INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

<u>INDICATORS</u>	<u>August 2004</u>	<u>July 2004</u>	<u>August 2003</u>
Unemployment Rate (Average)	6.1%	6.2%	6.8%
Annual Rate of Inflation (Chicago)	6.3%	0.6%	3.1%
<hr/>			
	<u>LATEST MONTH</u>	<u>% CHANGE OVER PRIOR MONTH</u>	<u>% CHANGE OVER A YEAR AGO</u>
Civilian Labor Force (thousands) (August)	6,387	0.0%	0.8%
Employment (thousands) (August)	5,996	0.0%	1.5%
New Car & Truck Registration (August)	66,940	15.0%	-0.1%
Single Family Housing Permits (August)	4,889	10.8%	16.1%
Total Exports (\$ mil) (July)	2,475	5.3%	17.7%
Chicago Purchasing Managers Index (September)	61.3	6.2%	19.7%

### **DCEO Announces Two Additional Illinois High Impact Businesses** Eric Noggle, Revenue Analyst

In August, the Illinois Department of Commerce and Economic Opportunity informed the Illinois Economic and Fiscal Commission that two more businesses have been designated as Illinois High Impact Businesses. These announcements satisfy the statutory requirements pursuant to 20 ILCS 655/5.5 (2003 Illinois Compiled Statutes), as amended, of the Illinois Enterprise Zone Act.

The first of these businesses, Hospira, Inc. and Subsidiaries, received the designation after having made application and provided documentation in support of its intention to invest in excess of \$42.5 million that will result in the creation of 500 full-time jobs in Conway Park – Lake Forest, Illinois.

The second business, Target Corporation, received the designation after having made application and

provided documentation in support of its intention to invest in excess of \$100 million that will result in the creation of a minimum of 500 full-time jobs in the Park 88 Business Park located in the City of DeKalb, Illinois.

By being designated as an Illinois High Impact Business, these companies now qualify for the building material sales tax exemption. These businesses also qualify for certain credits and exemptions under the Public Utilities Act and the Illinois Retailer's Occupation Tax. However, these credits and exemptions shall not be authorized until the minimum investments have been placed in qualified property and the minimum full-time equivalent jobs or full-time jobs have been created or retained, as set forth under the Illinois Enterprise Zone Act.

### **First Quarter FY 2005 Special Transfers** Lynnae Kapp, Bond Analyst

Special transfers to the general fund were a part of the enacted FY 2005 budget [Public Act 93-0839]. These special transfers include: administrative chargebacks [30 ILCS 105/8h] and

statutory transfers [30 ILCS 105/8.43 and 8k]. Of the expected \$265 million in statutory transfers for FY 2005, approximately \$152.1 million was transferred in the first quarter. Administrative chargebacks began in September and have reached \$39.0 million. Total special transfers to date for the fiscal year are \$191.1 million.

Special Transfers in FY 2005 YTD as of 9/30/2004				
FUND #	FUND NAME	Chargebacks	Statute (Funds Sweep)	TOTAL
0014	Food & Drug Safety		\$817,000	\$817,000
0018	Transportation Regulatory Fund		\$2,379,000	\$2,379,000
0021	Financial Institution Fund		\$2,003,000	\$2,003,000
0022	General Professions Dedicated Fund		\$497,000	\$497,000
0031	Drivers Education	\$581,162	\$2,967,000	\$3,548,162
0036	IL Veterans' Rehabilitation	\$70,994		\$70,994
0039	State Boating Act	\$251,497	\$1,072,000	\$1,323,497
0045	Agricultural Premium Fund	\$457,886	\$7,777,000	\$8,234,886
0050	Mental Health	\$2,086,290		\$2,086,290
0059	Public Utility	\$934,519	\$8,202,000	\$9,136,519
0067	Radiation Protection		\$750,000	\$750,000
0078	Solid Waste Management		\$10,084,000	\$10,084,000
0137	Plugging & Restoration		\$1,255,000	\$1,255,000
0147	Coal Mining Regulatory Fund	\$2,755		\$2,755
0151	Registered CPA Administration & Disciplinary Fund		\$819,000	\$819,000
0163	Weights and Measures		\$1,800,000	\$1,800,000
0167	Registered Limited Liability Partnership Fund	\$24,560	\$356,000	\$380,560
0184	Violence Prevention Fund	\$48,630		\$48,630
0207	Pollution Control Board State Trust Fund	\$19,751		\$19,751
0213	Response Contractors Indemnification Fund		\$107,000	\$107,000
0215	Capital Development Board Revolving		\$1,229,000	\$1,229,000
0218	Professions Indirect Cost Fund		\$39,000	\$39,000
0222	State Police DUI Fund	\$22,971		\$22,971
0224	Asbestos Abatement Fund	\$104,559		\$104,559
0248	Racing Board Fingerprint License Fund	\$2,804		\$2,804
0251	Dept. of Labor Special State Trust Fund	\$8,235		\$8,235
0259	Optometric Licensing & Disciplinary Committee Fund		\$1,121,000	\$1,121,000
0265	State Rail Freight Loan Repayment Fund	\$275,565	\$3,500,000	\$3,775,565
0272	LaSalle Veterans Home Fund	\$36,434		\$36,434
0273	Anna Veterans Home Fund	\$148,628		\$148,628
0274	Self-Insurers Administration Fund	\$14,008		\$14,008
0276	Drunk & Drugged Driving Prevention Fund	\$99,517		\$99,517
0280	IL Racing Board Grant Fund	\$24,902		\$24,902
0281	IL Tax Increment	\$853,806	\$1,500,000	\$2,353,806
0285	Long-Term Care Monitor/Receiver Fund	\$51,192		\$51,192
0290	Fertilizer Control Fund	\$16,632		\$16,632
0292	Securities Investors Education Fund	\$186,442	\$3,271,000	\$3,457,442
0294	Used Tire Management Fund		\$3,278,000	\$3,278,000
0295	SOS Interagency Grant Fund	\$2,043		\$2,043
0301	Working Capital Revolving Fund		\$12,000,000	\$12,000,000
0342	Audit Expense		\$1,237,000	\$1,237,000
0344	Care Providers for Persons w/ Developmental Disabilities	\$1,212,397		\$1,212,397

Special Transfers in FY 2005 YTD as of 9/30/2004				
FUND #	FUND NAME	Chargebacks	Statute (Funds Sweep)	TOTAL
0363	Dept. Business Service Spec. Ops Fund		\$524,000	\$524,000
0378	Insurance Premium Tax Refund Fund	\$292,099	\$2,500,000	\$2,792,099
0384	Tax Compliance & Administration	\$300,974	\$9,513,000	\$9,813,974
0386	Appraisal Administration		\$1,107,000	\$1,107,000
0421	Public Aid Recoveries Trust	\$5,063,408		\$5,063,408
0436	Safety Responsibility Fund	\$21,605		\$21,605
0438	IL State Fair	\$229,724		\$229,724
0483	Secretary of State Special Services		\$600,000	\$600,000
0514	State Asset Forfeiture Fund		\$1,500,000	\$1,500,000
0523	Department of Corrections Reimbursement		\$14,500,000	\$14,500,000
0530	Grape & Wine Resources Fund		\$1,000,000	\$1,000,000
0536	LEADS Maintenance		\$2,000,000	\$2,000,000
0537	State Offender DNA ID System Fund		\$250,000	\$250,000
0548	Drycleaner Environ Response Fund	\$272,563		\$272,563
0550	Supplemental Low Income Energy Assistance Fund	\$7,029,392		\$7,029,392
0571	Energy Efficiency Trust Fund		\$3,040,000	\$3,040,000
0608	Conservation 2000		\$7,439,000	\$7,439,000
0632	Horse Racing		\$2,500,000	\$2,500,000
0634	IL Aquaculture Develop Fund		\$1,067,020	\$1,067,020
0637	State Police Wireless Service Emergency Fund	\$52,862	\$500,000	\$552,862
0642	DHS State Projects Fund	\$105,712		\$105,712
0648	Downstate Public Transportation	\$764,939		\$764,939
0649	Motor Carrier Safety Inspection	\$90,277		\$90,277
0650	Municipal Economic Development Fund	\$14,796		\$14,796
0669	Airport Land Loan Revolving Fund	\$212		\$212
0708	IL Standardbred Breeders Fund	\$32,787		\$32,787
0732	SOS DUI Administration Fund	\$52,699	\$582,000	\$634,699
0743	Statewide Economic Development Fund		\$4,329,246	\$4,329,246
0776	Presidential Library and Museum Fund		\$500,000	\$500,000
0795	Bank & Trust Company	\$1,204,710		\$1,204,710
0808	Medical Special Purpose Trust Fund	\$83,223	\$967,000	\$1,050,223
0840	Hazardous Waste Research Fund	\$12,672		\$12,672
0884	DNR Special Projects Fund	\$91,281		\$91,281
0905	IL Forestry Development Fund		\$1,257,000	\$1,257,000
0906	State Police Services	\$596,452	\$250,000	\$846,452
0907	Health Insurance Reserve	\$12,874,230		\$12,874,230
0920	Metabolic Screening & Treatment Fund		\$3,435,000	\$3,435,000
0922	Insurance Producer Administration		\$12,727,000	\$12,727,000
0942	Radioactive Waste Facility Development & Operation		\$2,202,000	\$2,202,000
0943	Low-Level Radioactive Waste Facility Closure, Post-Closure Care & Compensation		\$6,000,000	\$6,000,000
0944	Environmental Protection Permit & Inspection		\$874,000	\$874,000
0955	Tech Innovation & Commercialization Fund		\$76,729	\$76,729
0962	Park & Conservation		\$1,000,000	\$1,000,000
0969	Local Tourism Fund	\$502,405		\$502,405
0982	IL Beach Marina	\$50,000		\$50,000
0993	Public Infrastructure Construction Loan		\$1,822,000	\$1,822,000
0997	Insurance Financial Regulation	\$1,721,874		\$1,721,874
	<b>TOTAL</b>	<b>\$38,999,075</b>	<b>\$152,121,995</b>	<b>\$191,121,070</b>

## **REVENUE**

### **First Quarter Ends Strong September Receipts Good**

Jim Muschinske, Revenue Manager

September general revenue receipts, excluding Pension Contribution Fund transfers, gained \$464 million. While federal sources and overall transfers contributed the largest share, virtually all revenue sources performed well. September had the same number of receipting days as in the prior year.

**G**ross corporate income tax receipts led the gainers, jumping, \$71 million or \$66 million net of refunds. The increase can be attributed to a number of factors: increased corporate profits; last year's tax amnesty program which could have delayed September 2003 receipts; and, recent tax changes which may be affecting estimated payments. Sales tax receipts rose \$44 million, while both public utility taxes and cigarette taxes increased \$28 million each. [The increase in cigarette tax revenue is due to a tax distribution change that will result in FY 2005 revenues being \$50 million higher than what usually is deposited into the general funds]. Gross personal income taxes posted an increase of \$27 million, or \$36 million net of refunds. Insurance taxes and fees generated gains of \$15 million, while other sources increased by \$11 million. Inheritance tax continued to outpace the prior year as receipts rose by \$6 million. Liquor gallonage tax increased by \$2 million, and vehicle use tax as well as corporate franchise taxes managed each to post \$1 million gains. Only income from interest on State funds and investments suffered a monthly decline, falling by \$2 million.

Overall transfers rose \$109 million in September. The increase was attributed to lottery transfers that rose by \$11 million and from riverboat transfers and receipts that increased \$5. In addition, other transfers rose by \$93 million due to approximately \$39 million in administrative chargebacks. *[In September of 2003, other transfers actually resulted in a negative \$7 million as approximately \$26 million of administrative chargebacks initiated in August 2003 were rescinded in early September].* Finally, as mentioned earlier, federal sources contributed significantly to the monthly increase as revenues rose by \$119 million.

### **Year to Date**

Through the first quarter of FY 2005, excluding Budget Stabilization and Pension Contribution funds transfers, receipts are up \$366 million over the same period of last fiscal year. With just a few exceptions, virtually all revenue sources have experienced gains over the same period of last year.

**S**ales tax receipts have contributed the most to the year to date increase as receipts posted gains of \$96 million. Gross corporate income tax revenue is up \$84 million, or \$75 million net of refunds. Other sources to the general funds are up \$70 million, while gross personal income tax receipts are up \$57 million, or \$75 million net of refunds. Due to a distribution change in FY 2005, cigarette tax receipts are up

\$41 million. Inheritance tax is ahead by \$27 million, while public utility taxes are up by \$21 million. All other sources experiencing gains contributed an additional \$32 million. Only revenue from interest on State funds and investments posted a first quarter loss with receipts down \$12 million.

Overall transfers in the first quarter were up \$474 million. However, \$434 of that gain was due to transfers from the Medicaid Provider Relief Fund resulting from last fiscal year's short-term borrowing. Excluding that transfer, all other transfers would be up

only \$40 million, comprised of an increase of \$35 million in lottery transfers, a \$6 million increase in other transfers, and a \$1 million decline in riverboat transfers and receipts.

While federal sources are down \$533 million over the first quarter, \$434 million in transfers in from the Medicaid Provider Fund could be considered "federal money" as it represents the federal reimbursement stemming from spending made available due to last year's short-term borrowing. If viewed in that context, the year-over-year decline in federal sources would be lessened to \$99 million.

# GENERAL FUNDS RECEIPTS: SEPTEMBER

FY 2005 vs. FY 2004  
(\$ million)

	SEPT. FY 2005	SEPT. FY 2004	\$ CHANGE	% CHANGE
<b>Revenue Sources</b>				
<b>State Taxes</b>				
Personal Income Tax	\$716	\$689	\$27	3.9%
Corporate Income Tax (regular)	218	147	\$71	48.3%
Sales Taxes	572	528	\$44	8.3%
Public Utility Taxes (regular)	107	79	\$28	35.4%
Cigarette Tax	61	33	\$28	84.8%
Liquor Gallonage Taxes	12	10	\$2	20.0%
Vehicle Use Tax	4	3	\$1	33.3%
Inheritance Tax (Gross)	18	12	\$6	50.0%
Insurance Taxes and Fees	74	59	\$15	25.4%
Corporate Franchise Tax & Fees	16	15	\$1	6.7%
Interest on State Funds & Investments	2	4	(\$2)	-50.0%
Cook County IGT	23	23	\$0	N/A
Other Sources	26	15	\$11	73.3%
<b>Subtotal</b>	<b>\$1,849</b>	<b>\$1,617</b>	<b>\$232</b>	<b>14.3%</b>
<b>Transfers</b>				
Lottery	49	38	\$11	28.9%
Riverboat transfers & receipts	79	74	\$5	6.8%
Medicaid Provider Relief Fund	0	N/A	\$0	N/A
Other	86	(7)	\$93	-1328.6%
<b>Total State Sources</b>	<b>\$2,063</b>	<b>\$1,722</b>	<b>\$341</b>	<b>19.8%</b>
<b>Federal Sources</b>	<b>\$516</b>	<b>\$397</b>	<b>\$119</b>	<b>30.0%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$2,579</b>	<b>\$2,119</b>	<b>\$460</b>	<b>21.7%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$72)	(\$81)	\$9	-11.1%
Corporate Income Tax	(\$52)	(47)	(\$5)	10.6%
<b>Subtotal General Funds</b>	<b>\$2,455</b>	<b>\$1,991</b>	<b>\$464</b>	<b>23.3%</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>N/A</b>
<b>Pension Contribution Fund Transfer</b>	<b>\$0</b>	<b>\$152</b>	<b>(\$152)</b>	<b>N/A</b>
<b>Total General Funds</b>	<b>\$2,455</b>	<b>\$2,143</b>	<b>\$312</b>	<b>14.6%</b>

IEFC SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding

4-Oct-04



# GENERAL FUNDS RECEIPTS: YEAR TO DATE

FY 2005 vs. FY 2004

(\$ million)

	FY 2005	FY 2004	CHANGE FROM FY 2004	% CHANGE
<b>Revenue Sources</b>				
<b>State Taxes</b>				
Personal Income Tax	\$1,869	\$1,812	\$57	3.1%
Corporate Income Tax (regular)	281	197	\$84	42.6%
Sales Taxes	1,673	1,577	\$96	6.1%
Public Utility Taxes (regular)	250	229	\$21	9.2%
Cigarette Tax	141	100	\$41	41.0%
Liquor Gallonage Taxes	38	32	\$6	18.8%
Vehicle Use Tax	10	10	\$0	0.0%
Inheritance Tax (Gross)	69	42	\$27	64.3%
Insurance Taxes and Fees	94	74	\$20	27.0%
Corporate Franchise Tax & Fees	42	36	\$6	16.7%
Interest on State Funds & Investments	8	20	(\$12)	-60.0%
Cook County IGT	77	77	\$0	0.0%
Other Sources	115	45	\$70	155.6%
<b>Subtotal</b>	<b>\$4,667</b>	<b>\$4,251</b>	<b>\$416</b>	<b>9.8%</b>
<b>Transfers</b>				
Lottery	143	108	\$35	32.4%
Riverboat transfers & receipts	195	196	(\$1)	-0.5%
Medicaid Provider Relief Fund	434	0	\$434	N/A
Other	265	259	\$6	2.3%
<b>Total State Sources</b>	<b>\$5,704</b>	<b>\$4,814</b>	<b>\$890</b>	<b>18.5%</b>
<b>Federal Sources</b>	<b>\$1,120</b>	<b>\$1,653</b>	<b>(\$533)</b>	<b>-32.2%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$6,824</b>	<b>\$6,467</b>	<b>\$357</b>	<b>5.5%</b>
<b>Nongeneral Funds Distribution:</b>				
<b>Refund Fund</b>				
Personal Income Tax	(\$194)	(\$212)	\$18	-8.5%
Corporate Income Tax	(\$72)	(\$63)	(\$9)	14.3%
<b>Subtotal General Funds</b>	<b>\$6,558</b>	<b>\$6,192</b>	<b>\$366</b>	<b>5.9%</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$0</b>	<b>\$226</b>	<b>(\$226)</b>	<b>-100.0%</b>
<b>Pension Contribution Fund Transfer</b>	<b>\$0</b>	<b>\$521</b>	<b>(\$521)</b>	<b>N/A</b>
<b>Total General Funds</b>	<b>\$6,558</b>	<b>\$6,939</b>	<b>(\$381)</b>	<b>-5.5%</b>
SOURCE: Office of the Comptroller, State of Illinois: Some totals may not equal, due to rounding.				
IEFC				4-Oct-04

# **GENERAL FUNDS GROWTH NEEDED TO MEET ESTIMATE**

**FY 2005 ESTIMATE vs. FY 2004 ACTUAL**

(\$ million)

	<b>Aug-04 ESTIMATE FY 2005</b>	<b>FYTD 2005</b>	<b>AMOUNT NEEDED FY 2005 EST.</b>	<b>FYTD 2004</b>	<b>GROWTH NEEDED</b>	<b>% CHANGE</b>
<b>Revenue Sources</b>						
<i>State Taxes</i>						
Personal Income Tax	\$8,572	\$1,869	\$6,703	\$1,812	\$280	4.4%
Corporate Income Tax (regular)	1,308	281	\$1,027	197	(\$155)	-13.1%
Sales Taxes	6,457	1,673	\$4,784	1,577	\$30	0.6%
Public Utility Taxes (regular)	1,090	250	\$840	229	(\$10)	-1.2%
Cigarette Tax	450	141	\$309	100	\$9	3.0%
Liquor Gallonage Taxes	147	38	\$109	32	\$14	14.7%
Vehicle Use Tax	35	10	\$25	10	\$0	0.0%
Inheritance Tax (Gross)	265	69	\$196	42	\$16	8.9%
Insurance Taxes and Fees	371	94	\$277	74	(\$11)	-3.8%
Corporate Franchise Tax & Fees	168	42	\$126	36	(\$1)	-0.8%
Interest on State Funds & Investments	54	8	\$46	20	\$11	31.4%
Cook County IGT	450	77	\$373	77	\$22	6.3%
Other Sources	500	115	\$385	45	(\$9)	-2.3%
<i>Subtotal</i>	\$19,867	\$4,667	\$15,200	\$4,251	\$196	1.3%
<i>Transfers</i>						
Lottery	575	143	\$432	108	(\$30)	-6.5%
Riverboat transfers & receipts	642	195	\$447	196	(\$18)	-3.9%
Medicaid Provider Relief Fund	433	434	(\$1)	0	N/A	N/A
Other	1,044	265	\$779	259	(\$121)	-13.4%
<i>Total State Sources</i>	\$22,561	\$5,704	\$16,857	\$4,814	\$26	0.2%
<i>Federal Sources</i>	\$4,255	\$1,120	\$3,135	\$1,653	(\$401)	-11.3%
<i>Total Federal &amp; State Sources</i>	\$26,816	\$6,824	\$19,992	\$6,467	(\$375)	-1.8%
<b>Nongeneral Funds Distribution:</b>						
<i>Refund Fund</i>						
Personal Income Tax	(\$864)	(\$194)	(\$670)	(\$212)	\$82	-10.9%
Corporate Income Tax	(318)	(\$72)	(\$246)	(63)	\$133	-35.1%
<i>Subtotal General Funds</i>	\$25,634	\$6,558	\$19,076	\$6,192	(\$160)	-0.8%
<i>Budget Stabilization Fund Transfer</i>	\$276	\$0	\$276	\$226	\$276	N/A
<i>Pension Contribution Fund Transfer</i>	\$0	\$0	\$0	\$521	(\$874)	-100.0%
<i>Total General Funds</i>	\$25,910	\$6,558	\$19,352	\$6,939	(\$758)	-3.8%
<b>IEFC</b>						<b>4-Oct-04</b>

**GENERAL FUNDS PERFORMANCE TO DATE**  
**GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET**

FY 2005 ESTIMATE vs. FY 2004 ACTUALS

(\$ million)

	*GOMB AUG-04 Estimate FY 2005	FYTD 2005	AMOUNT NEEDED FY 2005 Est.	FYTD 2004	GROWTH NEEDED	% CHANGE
<b>Revenue Sources</b>						
<b>State Taxes</b>						
Personal Income Tax	\$8,406	\$1,869	\$6,537	\$1,812	\$114	1.8%
Corporate Income Tax (regular)	1,129	281	\$848	197	(\$334)	-28.3%
Sales Taxes	6,431	1,673	\$4,758	1,577	\$4	0.1%
Public Utility Taxes (regular)	1,102	250	\$852	229	\$2	0.2%
Cigarette Tax	400	141	\$259	100	(\$41)	-13.7%
Liquor Gallonage Taxes	147	38	\$109	32	\$14	14.7%
Vehicle Use Tax	37	10	\$27	10	\$2	8.0%
Inheritance Tax (Gross)	240	69	\$171	42	(\$9)	-5.0%
Insurance Taxes and Fees	347	94	\$253	74	(\$35)	-12.2%
Corporate Franchise Tax & Fees	175	42	\$133	36	\$6	4.7%
Interest on State Funds & Investments	45	8	\$37	20	\$2	5.7%
Cook County IGT	450	77	\$373	77	\$22	6.3%
Other Sources	732	115	\$617	45	\$223	56.6%
<b>Subtotal</b>	<b>\$19,641</b>	<b>\$4,667</b>	<b>\$14,974</b>	<b>\$4,251</b>	<b>(\$30)</b>	<b>-0.2%</b>
<b>Transfers</b>						
Lottery	578	143	\$435	108	(\$27)	-5.8%
Gaming Fund Transfer	653	195	\$458	196	(\$7)	-1.5%
Medicaid Provider Relief Fund	433	434	(\$1)	0	N/A	N/A
Other	1,154	265	\$889	259	(\$11)	-1.2%
<b>Total State Sources</b>	<b>\$22,459</b>	<b>\$5,704</b>	<b>\$16,755</b>	<b>\$4,814</b>	<b>(\$76)</b>	<b>-0.5%</b>
<b>Federal Sources</b>	<b>\$4,255</b>	<b>\$1,120</b>	<b>\$3,135</b>	<b>\$1,653</b>	<b>(\$401)</b>	<b>-11.3%</b>
<b>Total Federal &amp; State Sources</b>	<b>\$26,714</b>	<b>\$6,824</b>	<b>\$19,890</b>	<b>\$6,467</b>	<b>(\$477)</b>	<b>-2.3%</b>
<b>Nongeneral Funds Distribution:</b>						
<b>Refund Fund</b>						
Personal Income Tax	(\$841)	(\$194)	(\$647)	(\$212)	\$105	-14.0%
Corporate Income Tax	(271)	(72)	(\$199)	(63)	\$180	-47.5%
<b>Subtotal General Funds</b>	<b>\$25,602</b>	<b>\$6,558</b>	<b>\$19,044</b>	<b>\$6,192</b>	<b>(\$192)</b>	<b>-1.0%</b>
<b>Budget Stabilization Fund Transfer</b>	<b>\$276</b>	<b>\$0</b>	<b>\$276</b>	<b>\$226</b>	<b>\$276</b>	<b>N/A</b>
<b>Pension Contribution Fund Transfer</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$521</b>	<b>(\$874)</b>	<b>-100.0%</b>
<b>Total General Funds</b>	<b>\$25,878</b>	<b>\$6,558</b>	<b>\$19,320</b>	<b>\$6,939</b>	<b>(\$790)</b>	<b>-3.9%</b>
* The GOMB forecast includes the \$433 million from the Medicaid Provider Fund in their estimate of federal sources. The Comptroller's Office records that money as a transfer in. For comparison purposes, the GOMB's federal source estimate was adjusted to take this into account [\$4.255 billion + \$433 million = \$4.688 billion].						
IEFC						4-Oct-04

**PENSIONS**  
**The Push To Reduce State**  
**Headcount and Payroll**  
Tim Blair, Pension Manager

**SERS Enhanced Refund Update**

Public Act 93-0839 provided an enhanced refund option for State employees terminating State service before October 31, 2004. The Act specified which job titles under the Governor's purview would qualify for the enhanced refund option and specified that all titles not under the Governor's purview will have access to the enhanced refund plan, with the authorization of the agency director or other department head. Employees in eligible job titles are required to be employed during June 2004 and in an eligible position continuously since January 1, 2004.

In order to participate, employees were required to be among the first 3,000 employees to apply to SERS. The application deadline was September 30, 2004 for employees under the Governor's purview. The deadline for eligible employees not under the Governor's purview is October 31, 2004. Participating employees must terminate service within 2 weeks of the approval of the application and in no event later than October 31, 2004.

The enhanced SERS refund amounts to all of the employee's contributions, with interest at 6.5% annually, multiplied by two. The regular SERS refund provision only allows for a refund of employee contributions, without interest. The Act specified this enhanced refund could be given to the member in a lump sum,

rolled into another qualified plan, or both. Upon accepting the refund, the member would waive all rights to any type of SERS benefit, including survivor's benefits and death benefits. *The enhanced refund would not diminish the employee's or their survivor's group health insurance benefits.*

There were 23,424 employees who received letters informing them of the program and their eligibility to participate. As of October 4, 2004, 563 applications have been received by SERS and 530 of those applications have been approved. To date, 125 participants have actually received payments from SERS. The Illinois Economic and Fiscal Commission will issue a report on the impact of the enhanced refund option in late 2004.

**Contingent Lump Sum Incentive  
Program Rules Submitted**

Public Act 93-0839 required the Department of Central Management Services (CMS) to create, adopt by emergency rulemaking through JCAR (by October 1, 2004), and administer a severance payment plan. The statutorily required emergency rules were accepted by the Secretary of State's Office on September 30, 2004.

The rules provide the job titles that were eligible for the enhanced refund option will also be eligible for the Contingent Lump Sum Incentive Program (CLSIP) and limit the number of individuals who may participate to 3,000 minus the number of employees who had applications accepted by SERS for the enhanced refund option, even if

the employee later decides not to participate in the enhanced refund option. The number of enhanced refund applicants will be certified by SERS on October 5, 2004. On the date the number of applications exceeds the participation limit, the CLSIP will be closed and only applications received by that date will be considered for participation. From the applications received on this day, CMS will randomly select applications until the limit is reached.

The rules specify that employees not under the Governor's purview will also have access to the CLSIP, but the director or other head of a department or agency may limit the number of individuals who may participate. The director or other agency head may also specify the amount of the severance payment and how the payment will be vouchered.

To be eligible to participate in the CLSIP plan, employees must have been active employees during any day in June 2004 and in a qualifying job title continuously since January 1, 2004. The rules require eligible employees under the purview of the Governor to apply to CMS between October 4, 2004 and October 31, 2004 and terminate State service between November 1, 2004 and December 31,

2004. The termination must be voluntary and terminations due to discharge or dismissal for any reason will render an employee ineligible to participate in the CLSIP program. Employees not under the Governor's purview must apply to the director or other agency head and terminate employment by the same date.

The CLSIP payment to eligible employees under the Governor's purview is 25% of final monthly salary for each full year of State service, up to a maximum severance payment of 13 weeks of salary. The final monthly rate of pay will be used as the salary on which the CLSIP payment is based, and no additional payments of any type will be included in the final monthly rate of pay. The rules specify that applications for CLSIP participation must include a resignation date or the application will be denied.

The CLSIP rules specify that the payment may not exceed the compensation earned by the participant in the 6 months preceding the date of application. This rule mainly affects employees who have been off of payroll due to disability, leave of absence, etc, for some period in the last 6 months. The CLSIP payment will be vouchered separately and will not be paid to the participants until at least 30 days after the employee's last pay date.

Employees who return to State employment are required to repay the amount of the CLSIP payments within

60 days of the return, unless returning as a temporary employee. The repayment must be made to CMS for returning employees under the purview of the Governor. For returning employees not under the purview of the Governor, the repayment must be made to re-employing department or agency.

The CLSIP will not fiscally impact SERS. There will be an impact to the State, but it depends primarily on the number of people who elect to participate by terminating State employment. The Commission will report on CLSIP participation and the impact of the program in early 2005.